SB 157: Gain Share should end or see a short extension with changes

Senate Finance and Revenue – Jody Wiser – 2.27.2023

SB157 is a Senate Committee bill extending Gain Share from 7.2025 to 7.2028.

We urge you to eliminate Gain Share by moving neither of the Gain Share bills out of committee. Gain Share is not necessary to recruit companies and the math doesn't justifying Gain Share. If you extend it, there should be changes to both Gain Share and the Strategic Investment Program to make both more rational.

Local communities receive property taxes on $25, $50 or $100 million from SIP programs, more from Community Service and the additional locally negotiated fees that further offset local tax losses, franchise fees and increased residential property tax revenue. Further, local governments have never shown that they spend more on services for their SIP properties than they are receiving in revenue from them.

Gain Share is justified with "We're giving up our property taxes and the state is getting all the income taxes." But in fact, the state is losing ~~its~~ 32% ~~share~~ of SIP property taxes that it must back fill for schools and community colleges and getting none of the often-substantial fees. Income taxes are what the state uses to pay for schools and other services required to support these new investments. Where do the communities asking for Gain Share funds think the hundreds of millions they are asking the state to support new semiconductor investments will come from?

If you don't move either of these bills forward Gain Share will end. We see four primary arguments favoring an end to Gain Share:

1) Many local jurisdictions are negotiating for and getting significant additional SIP agreement fees. *See the graphic submitted in testimony by TFO*. Many local communities are giving up only about 30% of the taxes that would be paid on wind farms and other properties with property tax abatement. What's given up is essentially the 32% of property taxes that are education dollars shared throughout the state, the state's portion of property taxes. SEE MAP/GRAPHIC also in today's testimony.

   As local leaders have become more successful negotiators, the rational for Gain Share has evaporated. Many jurisdictions are not "giving up" much of their own revenue while the General Fund is picking up the additional cost of education funding.

2) The above doesn't take into account the franchise fees cities are getting. While there has been no coordinated transparency about how much cities are receiving, knowing more about franchise fee receipts would likely make the arguments for Gain Share far weaker.

3) The Standard Enterprise and Long Term Rural Enterprise programs both collect less from the taxpayers, and they operate without Gain Share. SIP businesses actually are required to pay both fees and some taxes. Communities are best served by SIPs without Gain Share.

4) The discussion also leaves out the significant increases in residential property taxes local jurisdictions are receiving. The same employees who pay income taxes to the state also pay property taxes to local communities. For example, the 16,547 employees on whom Gain Share is calculated in Washington County likely pay at least $90 million in residential property taxes.*

The SIP was in place from 1994 to 2011 without Gain Share. We think the argument for Gain Share was weak when the legislature was convinced to put it in place. It is much weaker now that most local jurisdictions have learned to negotiate significant additional local fees, most are receiving franchise fees, and all are seeing increased residential property taxes.

If retaining Gain Share is your option, we think the shorter retention period in this bill which is in keeping with the six year review format and changes to both Gain Share in the SIP are in order.

For instance, there should be no inflation adjustment for Gain Share unless there is also an adjustment to the $25, $50 and $100 million upon which SIP businesses have paid property taxes since 1994. ** Further, the cap on the Community Service Fee is $2.5 million. That effectively means a $3 billion facility pays the same tax as a $670 million facility. Each of these issues should be addressed if any one is.

Footnotes:

*Washington County residential property taxes $90 million estimate is based on the median property taxes in Washington County ($2812/year on a median value of $303,700), Washington County is receiving Gain Share on 16,547 employees x $2812 = $46.5 million in property taxes a year. Obviously, with average wages of $134,000 a year, residential property tax receipts from this population are likely double that or $90 million.

** We've heard Washington County wants an inflation adjustment for the $16 M cap that become effective in 2016. (vote in 2015). We've heard no numbers mentioned **but Inflation adjusted from 2016 to 2023 would be an increase to $19.94 M.**

If Gain Share is inflation adjusted, the $25, $50 and $100 million of taxable property figures should also be inflation adjusted. The numbers were set in 1993. Had that $100 M originally been set for inflation adjustments, Hillsboro and Washington County would receive property **taxes on $206 M, rather than only $100 M** on each of their three SIP agreements (And the state would get its 32% share of that extra $106 million). With typical property taxes in Washington County at $17.10 - $17.55 per thousand, that would mean they would be getting about $4.5 M more in property taxes from Intel and Genentech.

If the $16 M cap on Gain Share is indexed retroactively, then the $100 M should be as well. And if indexed only going forward, then index both consistently. It's time to work this issue.

Asides:
Last year Washington county gave away $16 m in data center property taxes, the same amount as they insist they need in Gain Share. Why haven't they come saying we shouldn't be giving these tax breaks to data centers and warehouses or asked for improvements to the SIP?

Why hasn't Washington County asked that the cap on the Community Service Fee be removed. That would increase their revenue significantly. That cap means that whether Intel builds a $1 billion or a $10 billion facility, their required taxes and fees under the SIP will be no more than taxes on $240 million of property.

Both Genentech's SIP and Intel's 2005 SIP will soon age out. Their taxing jurisdictions should get significant additional property taxes from Intel, and a bit less from Genentech when that happens. More recently Genentech also had a 5-year enterprise zone. They have aged out of that exemption.